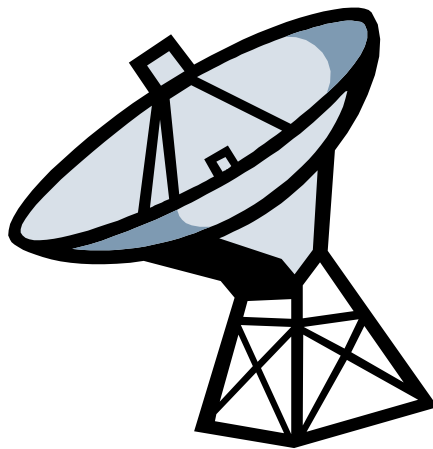


**REPORT ON THE STATUS OF COMPETITION
IN
TELECOMMUNICATION SERVICE
IN
MICHIGAN**



June 2003

**Submitted by:
MICHIGAN PUBLIC SERVICE COMMISSION
Michigan Department of Consumer and Industry Services**

**In Compliance with
Public Act 179 of 1991 as amended**

Annual Report on the Status of Competition
in Telecommunication Service in Michigan
June 2003

Section 103 of the Michigan Telecommunications Act (MTA) as amended in July of 2000 provides that the Commission submit an annual report describing the status of competition in telecommunication service in this state, including, but not limited to, the toll and local exchange service markets in this state. The report required under this section shall be submitted to the Governor and the House and Senate standing committees with oversight of telecommunication issues. This is the third report pursuant to Section 103.

Prior reporting of this nature occurred as a result of information gathered in Case No. U-10177 and Case No. U-10085 in 1992. The information was presented as part of the *Final 1994 Report to the Governor and Legislature*.

TOLL MARKETS

The toll market is commonly referred to as long distance and the providers of such services are referred to as interexchange carriers (IXCs). In 1994, it was reported that the IXCs who owned their own facilities were required to provide very little information to the Commission related to their operations. The Commission does not license them and the primary requirement is that they file tariffs consistent with the provisions of the MTA. IXCs providing toll service via resale were exempt from this tariff-filing requirement as well. As a result, there is little information available regarding market share, customer numbers or revenues.

The same analysis holds true today for the toll/long distance marketplace. On May 1, 2000, the Federal Communications Commission (FCC) ordered the detariffing of the interstate, domestic interexchange services of non-dominant IXCs to become effective after a transition

period. Detariffing means that the IXC's do not file their rates and terms of services with the FCC. Beginning July 31, 2001, interstate long distance companies began providing service without filing tariffs with the FCC. They provide information to consumers via other means such as their websites. The FCC concluded that detariffing would enhance already vigorous competition among providers of interstate, domestic, interexchange services and promote competitive market conditions.

In Michigan, there are 7 carriers registered as facilities-based toll carriers for the year 2002. The reselling of toll services is unregulated but the Commission has registered 199 carriers as resellers of toll service in Michigan for 2002. This is a self-registration process but it does indicate that there are numerous providers of this service. The Commission's web site provides a link for rate comparisons among providers. Additional information is available in the report of the FCC issued on May 14, 2003, *Statistics of the Long Distance Telecommunications Industry*.

Information available to the Commission indicates that despite an increase in the number of toll providers, the prices of basic toll service have in fact increased in the last several years. Results of competition appear to be more evident in the number of optional toll package alternatives available and the number of providers who offer them as well as declining prices for higher usage customers who do not utilize basic toll rates. It is worth noting that innovative bundling of services and new pricing plans are blurring the distinction between toll and local services. Many providers are offering unlimited local and long distance services plus unregulated features at one combined price. In some cases, these bundles also include wireless and Internet access services.

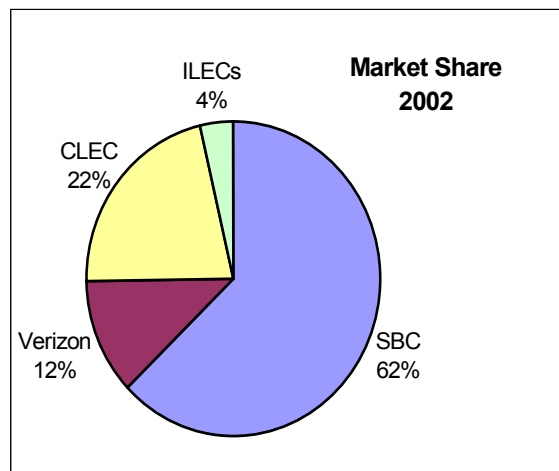
BASIC LOCAL EXCHANGE MARKET

To obtain an accurate picture of the competitive marketplace in Michigan for local service, the staff of the Commission has conducted surveys of SBC and all licensed Competitive Local Exchange Carriers (CLECs) for 1999, 2000, 2001 and 2002 which included incumbent local exchange carriers (ILECs) that also operate as CLECs in Michigan. CLECs are providers that compete in the same geographic area as ILECs. This year's survey was sent out to 219 licensed CLECs in the state of Michigan as of January 1, 2003. The survey was conducted as an information/data request. The data collected was for the year ending December 31, 2002. This information was gathered to assist the Commission staff in evaluating the scope of local competition in Michigan.

The survey vehicle was developed through a collaborative process set forth in the Commission's order in docket U-12320. Through the surveys the staff requested some information that the companies considered confidential. The results of most portions of this survey were reported as total CLEC numbers to maintain the confidentiality of the individual company numbers. For 2002, of the 219 CLECs that the survey was mailed to, 113 companies filed a response with 54 of those companies reporting that they were actually providing local service. CLECs are granted a license that is conditioned on the provision of service to customers within a reasonable time and failure to do so could result in a revocation of the license.

From the data compiled through this year's survey for 2002, staff found that the number of lines provided by CLECs (including over their own facilities or through resale of incumbent providers services) was 1,447,176. The staff report indicates that the total number of lines provided in Michigan (ILECs including SBC and CLECs) was 6,668,124. The number of CLEC lines compared to total lines represents 21.7%. SBC's share is 62.9% (4,191,771 lines) while

GTE's share is 11.9% (790,690 lines). The small independent telephone companies represent the remaining 3.6% (238,487 lines) of the total lines in Michigan. The survey responses indicate that the geographic areas covered by CLEC lines encompass primarily the Detroit, Grand Rapids, Lansing and Saginaw areas with the majority of



the competitive lines being provided in the Detroit vicinity. From the data that SBC provides, 64% of the competitive lines are provided in the Detroit area, 22% of the competitive lines are provided in the Grand Rapids area, 6% of the lines are provided in the Lansing area, 6% of the lines are provided in the Saginaw area and 2% of the lines are provided in the Upper Peninsula area. It should be noted that virtually all of the CLEC activity is in geographic areas that are served by SBC. As a percent of this market, the CLEC market share is approximately 26% of SBC lines.

The Commission continues to license new CLECs, and at the end of 2002, the CLECs were serving 21.7% of the lines provided to customers by telecommunication carriers in Michigan. This is an increase over the previous year and indicates a positive trend in the competitive basic local service market in Michigan. These numbers are consistent with the trend that is represented in an analysis done by the FCC on information gathered through June of 2002. On February 27, 2002, the FCC released its report on *Local Telephone Competition: Status as of June 30, 2002*. For the Michigan companies that are required to report this data to the FCC, the ILECs reported 5,498,139 lines, and the CLECs reported 1,211,379 for a total of 6,709,518 lines. From the FCC's data, the CLEC share was reported at 18%. This data gathered by the FCC is

from 6 reporting ILECs and 15 reporting CLECs for Michigan, and would represent the larger providers and a majority of the lines.

The 2002 Survey Results Show That:

CLECs With No Lines	59
CLECs 1 – 1,000 Lines	18
CLECs 1,001 – 10,000 Lines	16
CLECs over 10,000 Lines	20
Total CLECs Responding to Survey	113

The above information categorizes the CLECs according to the number of customer lines that they served in 2002. The data indicates that of the 113 CLECs reporting, 59 were serving no customers in 2002 and this represents almost 52% of the group, while the second group served between 1 line and 1,000 lines, a group of 18 CLECs or almost 16%. The third group served between 1,001 and 10,000 lines each and is comprised of 16 CLECs for a 14% share and the last group of CLECs served over 10,000 lines each and represents 20 CLECs for an 18% share.

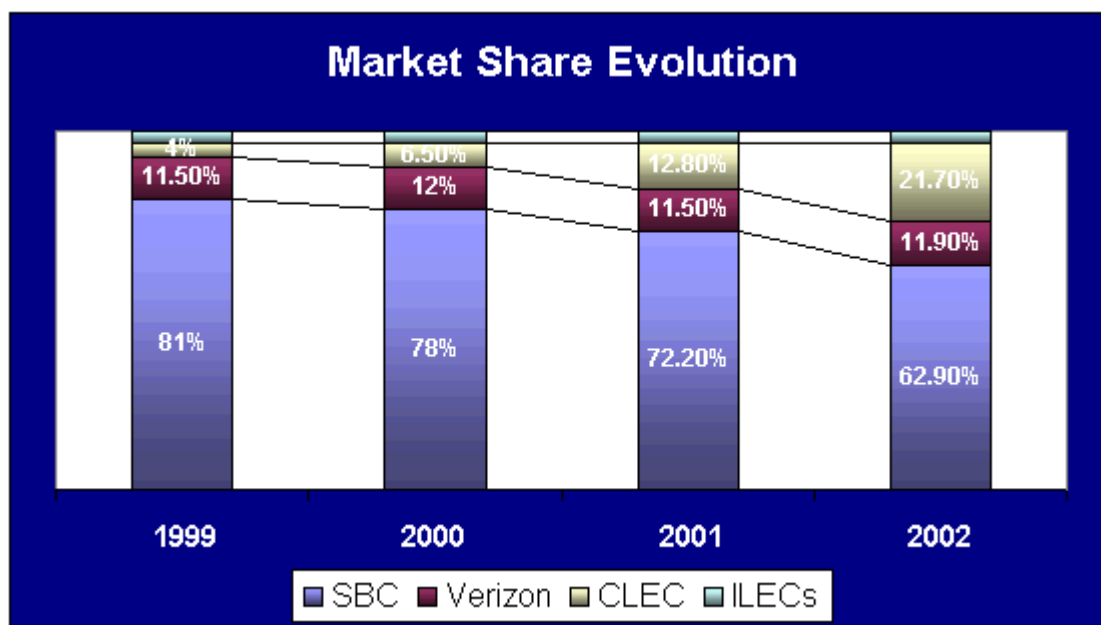
A portion of the data gathered by the Commission for the last four years is presented below in a table format to allow a more comprehensive presentation for analysis.

Michigan Public Service Commission CLEC Survey Results:

	1999 Data	2000 Data	2001 Data	2002 Data
Licensed CLECs	120	167	173	219
CLECs responding to survey	59	69	102	113
CLECs actually providing service	25	37	52	54
CLECs with actual line counts	23	31	42	54
Lines Provided by CLECs	268,385	446,164	896,023	1,447,176
Total Lines in Michigan	6,726,971	6,901,813	7,014,263	6,668,124
CLEC %	4 %	6.5 %	12.8 %	21.7%
SBC %	81 %	78 %	72.2 %	62.9%
Verizon %	11.5 %	12 %	11.5 %	11.9%
ILECs %	3.5 %	3.5 %	3.5 %	3.6%

As is shown, the actual number of CLEC providers and CLEC lines in Michigan has grown over the last four years that this information has been gathered and has grown from a 4% share to a 21.7% share at the end of 2002.

The graphical representation of the evolution of the market share over the last four years is shown below. The chart indicates growth for the CLECs while at the same time declining market share for SBC. The market share for the small ILECs and Verizon remained fairly constant over the survey period. Also of interest is that in 2002, the total number of customer lines decreased, reflecting a migration to wireless, email and Internet telephony.



SBC MICHIGAN INTERLATA APPROVAL

SBC has been working for some time toward obtaining approval to offer interLATA toll service in Michigan. The Federal Telecommunications Act of 1996 requires SBC to comply with five conditions regarding interconnections with competitors and with a 14-item competitive checklist before the FCC can grant this approval. The consulting firm of Bearing Point has been working on conducting a test of SBC's Operations Support Systems (OSS) to help determine whether SBC complies with the federally mandated checklist requirements. Ernst and Young conducted a partial audit to supplement the Bearing Point Report. On January 13, 2003, the Michigan Commission issued a report and a separate Order finding that SBC complied with the requirements of Section 271 of the Federal Telecommunications Act and recommended that the FCC approve SBC's application to provide interLATA long distance service. SBC's application was filed at the FCC on January 15, 2003 but withdrawn on April 16, 2003. Upon the withdrawal of the application, the Chairman of the FCC indicated that SBC's application generally met the requirements of Section 271 but that there were "very narrow, but nonetheless important" issues which prevented approval of the application. SBC indicated that it would reapply to the FCC in the very near future.

WIRELESS MARKET

The Michigan Public Service Commission does not regulate wireless providers, however, included here is information gathered by the FCC on the wireless industry pertinent to Michigan from the report on *Local Telephone Competition: Status as of June 30, 2002*. The FCC reported that by June 2002, Michigan had 4,710,370 wireless subscribers. This is a 16 percent increase from December of 2001. The FCC reported that for the year 2001, the mobile telephone industry experienced another year of impressive subscriber growth, increased usage and declining prices.

This equates into a national penetration rate of approximately 45 percent. Digital technology is now the dominant technology and 94 percent of the total U.S. population has three or more different providers offering service. Almost one in five subscribers regard their wireless phone as their primary phone.

The FCC's report also indicated that Michigan had 11 wireless carriers with over 10,000 subscribers as of December 2000. In the Detroit/Ann Arbor/Flint area, there were 3.5 million subscribers. This amounts to 51 percent of the year 2000 census population.

CONCLUSION

In conclusion, based on available data that staff has gathered through its surveys over the four-year period, there is continued growth in the percentage share of CLEC lines in Michigan from a 4% share in 1999 to a 6.5% share in 2000, a 12.8% share in 2001 to a 21.7% share in 2002. This is a positive trend. Competition in the basic local exchange industry in Michigan is growing. However, this has occurred with vigilant regulatory oversight to ensure that competitors are able to obtain the access to needed elements of the ILEC network without ILEC interference or obstruction. This indicates that the process that the Commission has established under the guidelines of the MTA is working to provide a smooth transition of the telecommunications market for basic local exchange service in Michigan to a viable competitive one.